

## **Memorandum**

**To:** Mayor William M. Beck and Members of City Council

**From:** Phillip L. Rodenberg, City Manager  
Beverly R. Cameron, Assistant City Manager

**Date:** March 9, 2004

**Subject:** **Budget Transmittal and Summary**

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### **Introduction**

We are pleased to transmit the city manager's recommended budget for Fiscal 2005. The attached document provides budget recommendations for the four primary funds that make up the City's operating budget: (1) General Fund, (2) Water Fund, (3) Sewer Fund, and (4) Transit Fund.

The City Council's adopted Vision Statement speaks of enhancing our City's livability, sense of community, and prosperity while preserving our natural beauty, heritage, and unique character for generations to come. We believe that this budget will advance your vision and enable the City to meet the significant service requirement that you and the citizens have come to expect.

Overall, the General Fund budget totals \$55.71 million, up 10.3%, or \$5.2 million over the current year. The core City budget accounts for only one-third of the increase.<sup>1</sup> A combination of tax and fee increases totaling \$1.42 million will be required to balance the recommended operating budget and provide a reserve for even larger debt service payments in Fiscal 2006.

Staff has developed a menu of options that produce the necessary revenue. These options are shown as an attachment to this memorandum. Generally, the options consider the following sources of revenue: real estate tax, auto decal fee, E911 phone tax, consumers' utility tax, tobacco tax, building permit and site development fees, emergency medical service fee, garbage collection fee, hotel tax, and proration of personal property tax. We believe that Council is best suited to decide what combination of enhancements is right for Fredericksburg. We note that all options presented to Council include an increase in the tobacco tax (from 5 cents to 25 cents), site development fees (33% overall), garbage fees (from \$12.75 to \$13.39), and hotel tax (from 4% to 5%).

Highlights of the proposed budget follow.

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<sup>1</sup> Core City budget includes General Government personnel, fringe benefits, non-personal expenses and capital outlay.

**Schools**

The City appropriation for Schools is \$16,070,732. This appropriation represents a 10.9% increase (\$1,583,907) over the current year. This recommendation essentially fully funds the School Board's request. It provides the mid-point of two funding scenarios presented by the school superintendent and School Board in view of uncertain State revenues.

The Board's request includes 11 additional positions, 10 of which are teaching positions. Funds are also required for additional retirement system costs. Due to the updated actuarial valuation and State policy changes, City contributions to the VRS are projected to increase by approximately \$500,000 next year for school employees.

It is important to note that the City School budget does not include operating costs associated with the two new schools. These additional operating costs – estimated to be about \$2.2 million, will show up in the Fiscal 2006 budget.

**Regional Jail**

The City's expenditures for the Rappahannock Regional Jail (\$2,352,797) will increase 8.2%, or \$178,763 in Fiscal 2005. Most of the City's increase is related to debt service, the cost of which fluctuates based on usage. The overall increase in the operating budget of the Jail is going up 3.8%; the City's share of usage is 28% of total.

**Salaries**

The City has 358 full-time employees. The City also has about 80 regular part-time, non-seasonal employees. The total estimated payroll for Fiscal 2005 is \$16.8 million (General, Water, Sewer, and Transit Funds).

In past years, the City has strongly emphasized providing market-competitive salaries for all employees. We have recognized that City government is a "people" business. Quality services are provided by our employees, and we must hire and retain educated, skilled, and motivated employees to provide these services.

The median length of service for all full-time employees is currently 9.4 years. Remarkably, 30% of the workforce has been employed by the City longer than 15 years.

The City's pay and classification plan (established in 1997 and revised in 2001) has established pay grades ranging from Grade 5 through 48. Within each pay grade the distance between minimum and maximum salary is 40%. The average employee is able to attain mid-point salary within seven years. Mid-point salary is an accurate estimate of market value for an experienced worker in the position. Approximately 45% of the City's classified employees have salaries at or above the mid-point. The median annual salary for classified employees (excluding overtime) is \$36,765.

For Fiscal 2005, the city manager proposes a cost-of-living adjustment of 3.0% for all employees, effective July 1, 2004. Further, the budget includes funds totaling 1% of payroll for some form of merit pay to encourage excellence. While the details are not

final, the city manager envisions providing a merit bonus to a relatively small number of classified employees.

**New Positions**

The Fiscal 2005 budget includes funding for only one new full-time position in the General Fund: an attorney in the Office of the Commonwealth's Attorney. The budget provides full-year funding for the two police officer positions which were added to replace officers called to military duty last year. The budget also includes funding for a part-time auditor in the Commissioner of Revenue's Office – additional revenue will completely offset this expense.

Regarding the Commonwealth's Attorney, the criminal caseload has grown to the point where it cannot be managed with existing staff. The Office has employed 3 full-time attorneys since 1990. During that time period, the criminal caseload has tripled. According to State staffing standards, the Fredericksburg Office is short 2.3 attorneys.

City departments and Constitutional Officers requested 30 new positions at a cost of \$1.1 million. We would like to recommend creating several of these positions in FY05, but funding constraints will not permit it.

**Regional Library**

The City's annual payment to the Central Rappahannock Regional Library will increase by \$174,510 in Fiscal 2005. The City's payment will total \$998,448 in FY05. Included in this amount is a \$100,000 contribution for utility and maintenance expenses at the Wallace Library.

The overall budget for the Regional Library is up 8.4% (total budget \$8,609,200). The localities pay 92% of the cost of operating the Regional Library, and the Commonwealth pays 8%. Most of the money provided by the Commonwealth is used for books and library supplies.

**Outside Agencies**

The City's budget includes funds for 53 agencies<sup>2</sup> at a total cost of \$1,739,615. Seven agencies account for 68% of the total: Local Health Department – \$388,444, Rappahannock Community Services Board – \$207,511, Fredericksburg & Stafford Park Authority – \$191,717, Fredericksburg Area Museum – \$132,000, and Fredericksburg Rescue Squad – \$94,935, Thurman Brisben Homeless Shelter – \$79,000, and the Chaplin Group Home – \$71,715

Please see Tab G, "Agencies," for a complete breakdown of requests and city manager recommendations.

**Health Insurance**

The General Fund budget includes funds in the amount of \$1,825,300 for employee health insurance. The City recently received seven bids for health insurance. These bids

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<sup>2</sup> This excludes payments to the Regional Jail, Juvenile Detention Center, Library, and R-Board Landfill.

are being evaluated, and staff anticipates a *reduction* in cost for next year. This is a welcome change from past years when the City experienced annual increases of 20% or more. In Fiscal 2005, the weighted average City payment of premium will be \$5,475 per subscriber.

The City's health insurance coverage is currently provided by Anthem (Blue Cross and Blue Shield). The plan maintained by the City is known as an Aggregate Stop-Loss Policy, with limits of \$80,000 (Specific) and 115% (Aggregate). The City is self-insured and purchases reinsurance for individual and aggregate claims above the aforementioned limits.

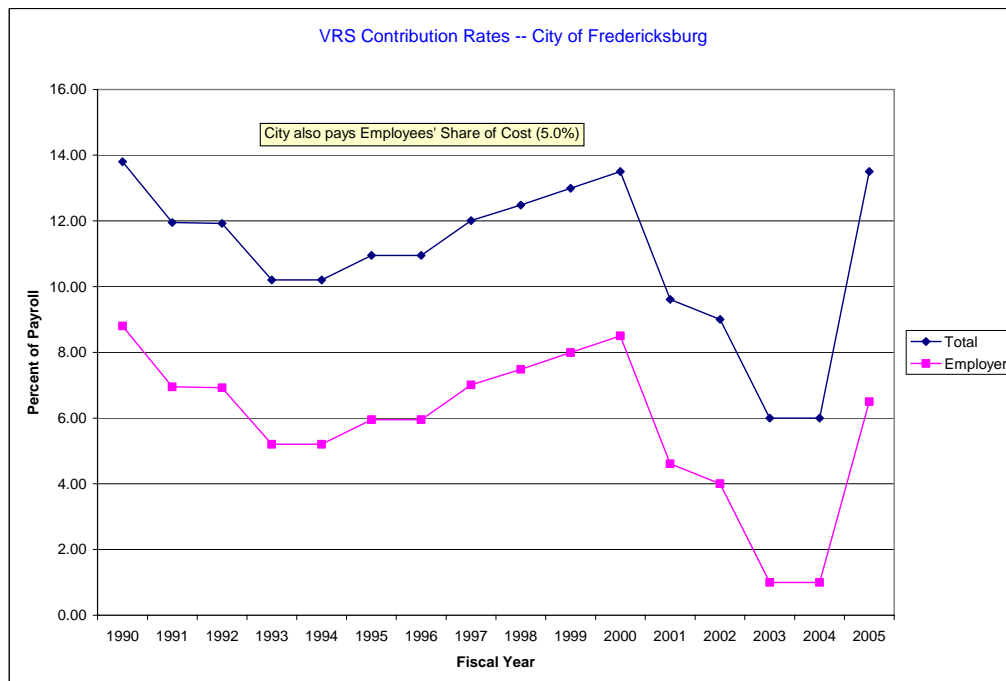
### Virginia Retirement System

The City provides an excellent retirement program through the Virginia Retirement System. The General Fund budget includes funds in the amount of \$1.8 million for VRS in FY05. This is an increase of almost \$1 million over the current year.

Currently, the City's contribution rates are 1.0% (Employer) and 5.0% (Employee), for a combined total of 6%. The City pays both the Employer and Employee shares of cost. In FY05, the City's contribution rate increases to 8.5% (Employer) and 5.0% (Employee), for a combined total of 13.5%.

The City's average Employer rate since 1990 has been 6.5%, and has been as high as 8.8%.

The chart below shows how the VRS rate has changed over time.



In addition to the VRS, the City offers a voluntary, supplemental retirement program known as the ICMA–RC (International City Management Association – Retirement Corporation). This is a “457 Plan,” which is the public-sector equivalent to a “401-K Plan.”

When the VRS rate plummeted in Fiscal 2003, the city manager recommended that the temporary savings from the reduction be used by city employees for their ICMA–RC savings plan. The City provided a matching contribution for each dollar invested by the employee, up to a maximum of \$1,250 annually. This program was initiated in FY03.

Unfortunately, due to the rising cost of the VRS pension plan, we must now recommend that City contributions to the ICMA-RC Plan be suspended.

### **General Fund Operating Expenses**

In Fiscal 2005, the budget for operating expenses is approximately \$5.2 million – up 2.9% over Fiscal 2004. Operating expenses include: (1) purchased services; (2) utilities, telecommunications, and property/casualty insurance; (3) leases and rentals; and (4) materials and supplies.

Funding for several initiatives is included: tree replacement (\$66,000); comprehensive plan update (\$40,000); safety and environmental management system (\$15,000); neighborhood enhancements in preparation for the Jamestown 2007 Celebration (\$15,000).

### **Capital Outlay**

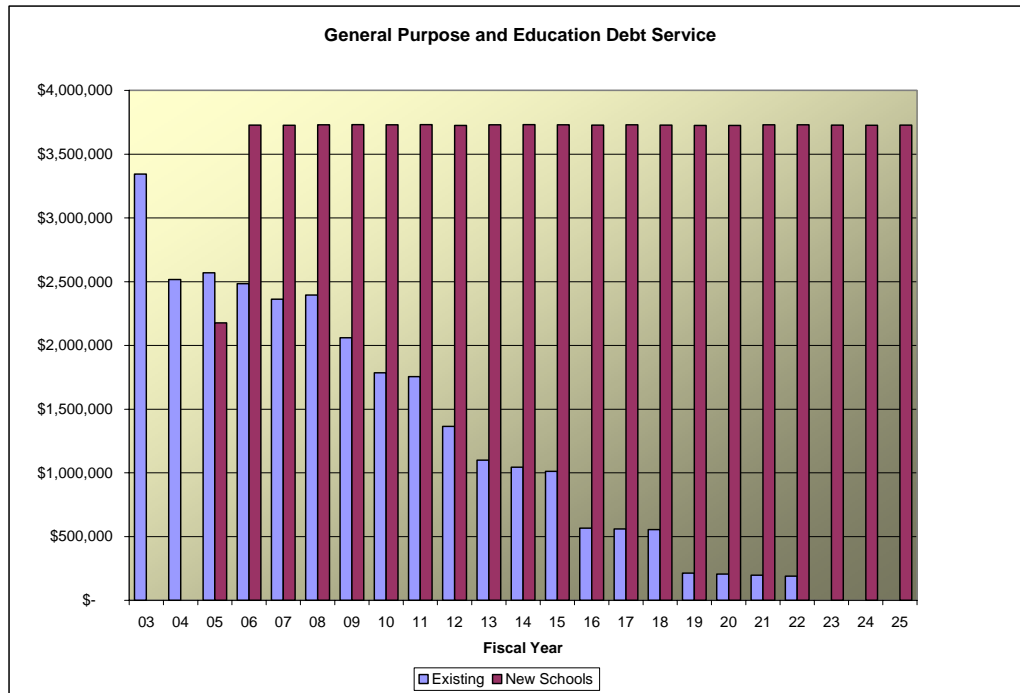
The General Fund budget includes funds in the amount of \$981,622 for capital outlay (i.e., fleet and equipment replacement). These expenditures can be summarized as follows: Motor vehicles – \$471,300; Equipment replacement – \$234,758; Furniture and Fixtures – \$111,850; Communications equipment – \$34,835; and Computer equipment – \$94,450. Overall, capital outlay expenditures represent only 1.8% of total General Fund expenditures. There is an increase in this spending category from Fiscal 2004 to 2005 of approximately \$120,000. The increase is attributed to the following: safety and environmental management system requirements, voting machines, and replacement of outdated historic district signage.

### **Transfer to Capital Improvements Program**

The operating budget includes funds in the amount of \$850,000 for the Capital Improvements Program (CIP). This transfer of funds supplements bond proceeds and investment earnings used for projects in the Capital Funds.

### **Debt Service**

The proposed budget includes a significant increase in debt service expense – up \$1.4 million, or 42% over the current year. We have included a payment of \$2.1 million for interest expense on the \$50 million school bonds. The chart below shows General Purpose and Education debt service.



### General Fund Contingency

The city manager's budget includes a contingency in the amount of \$509,695.

### Revenues

The City continues to see steady revenue growth, largely due to the commercial development in the annexed area. Total General Fund revenues are up 9.0%, or \$4,565,769 (total \$55,066,462).

Five local sources account for 75% of total revenue: Real Estate Taxes – \$16,705,500 (up 13.1%); Sales Taxes – \$11,115,000 (up 17.2%); Personal Property Taxes – \$5,078,200 (up 2.6%); Meals Taxes – \$5,094,960 (up 7.5%); and Business License Taxes – \$4,028,500 (up 5.1%).

The total taxable value of real estate (July 2003) is \$1.89 billion. It has been assumed that new construction of approximately \$20 million will be added to the land book during the current year.

Revenue from the Commonwealth accounts for only about 9% of total General Fund revenue. Most of this revenue comes from four sources: Highway Maintenance – \$1,619,000; Personal Property Tax Reimbursement – \$1,650,000; Payments for Constitutional Officers – \$1,151,650; and Law Enforcement Assistance – \$625,000.

### **State Budget Impact**

The Commonwealth of Virginia continues to face serious budgetary problems. Recent estimates suggest that there has been a state revenue shortfall of \$3.8 billion over the current biennium.

Already we have seen reductions in state revenues which affect the City. In the past two years, the City has lost approximately \$360,000 in state reimbursements for constitutional officers, juvenile justice programs, and the Drug Court.

The state's major program areas are higher education, K-12 public education, transportation, and Medicaid. Together, they account for nearly two-thirds of all state spending. Over 60% of all money the state provides local governments goes toward K-12 public education. If the state reduces expenditures for local schools, the local governments will be asked to make up the difference. This is an area of major concern for cities and counties in Virginia.

Car tax relief will cost the state about \$1 billion in Fiscal 2004. This cost will grow each year by 3 to 4 percent (even assuming that relief will be frozen at the 70 percent level). Localities can only hope that the state continues to provide reimbursements for the car tax. If the state stopped funding the reimbursements, the City could be facing a revenue gap of over \$1.6 million annually.

As the Governor and General Assembly grapple with the current budget problems, the state will most certainly provide less funding for many services that affect our residents – libraries, museums, jails, probation and parole offices, health departments, local community service boards, local welfare departments, legal aid offices, and community colleges. Many of these service providers will turn to local government for increased support.

### **Conclusion**

We look forward to reviewing the budget with you over the coming weeks. We believe the budget is a responsible spending plan which continues to make progress in many areas of service delivery. We welcome your input.

We also extend our thanks to all city department heads and constitutional officers who assisted us in the preparation of the Fiscal 2005 budget.